Lessons Learned

Learning Objective

To gain an initial advantage by learning from those who've already "been there and done that"

Topics Presented

Activity-Based Costing:

- ◆ **Objective**

- ◆ **Commitment**

- ◆ **Plans**

- ◆ **Resources**

Objective

The "reason" for undertaking this ABC venture must be spelled out and be unambiguous!

- ◆ **Not that it's directed!**

- ◆ **Not just "It's a good thing!"**

- ◆ **Why are we really doing this?**

Objective

This is NOT an RM program!

- ◆ **"Cost" in the title is unfortunate!**

- ◆ **Activity-based <u>management</u> is a better term for the program**

- ◆ **Activity-based <u>costing</u> is merely the "tool"**

- ◆ **RMs serve as facilitators assisting managers in their application of ABM**

Lessons Learned

Objective

Who is this ABC stuff for?

- ◆ **Commander, directors, managers?**

- ◆ **User drives the model's details and focus**

- ◆ **Top down with trickle down/drill down is best approach**

Lessons Learned

Objective

What do they want to know?

- ◆ **Pizza slicing!**

- ◆ **Again, the "answer" to that drives the model's details and focus**

- ◆ **Short term concentration as needed**

Objective

The ABC model should tell you something that you didn't already know. If it doesn't, it's of little use!

Objective

What will be done with the results, especially if saving are realized?

- ◆ **Re-invest (awards, training, improved work areas, etc.)**

- ◆ **Commit to removing fear of this being another RIF program**

Commitment

Senior leader buy-in is critical!

- ◆ **Must be a champion**

- ◆ **Committed to an organization that is:**

  - ➤ **Strategically directed**

  - ➤ **Customer-focused**

  - ➤ **Process-based**

- ◆ **Concerted and deliberate effort**

Lessons Learned

Commitment

Organizational buy-in usually follows the leader's acceptance!

- ◆ **What gets measured, gets done!**

- ◆ **Periodic (ABC/M-focused) "assessment of productivity" sessions**

- ◆ **Commander must "pull" this program and insist on accountability of managers at various levels**

Lessons Learned

Commitment

Everyone in the organization must have a basic under-standing of what ABC/M is and why it's being done. Conduct one-on-one's with leaders! Inform workforce! Solicit feedback!

Lessons Learned

Plans

Generally:

- **Establish a "Steering Committee" of change agents to set goals and guide the overall project**

- **ABC projects should be preceded by a "pilot" implementation. The overall project may take somewhat longer and cost a little more, but benefits are well worth it.**

Plans

- ◆ **Establish both short and long-term goals for the project**

- ◆ **Seek the right balance between too little and too many details. Again, who's model is this and what do they want to know?**

- ◆ **Update models no less than quarterly to provide timely management information and retain both modeling skills and staff awareness of program**

Lessons Learned

Plans

Specifically:

- **Relate to existing programs. For example, in the Base Support area:**
  - Use SBC Services as the top-level cost objects
  - Use ISR Part III activities as the top level activities and leverage "C" ratings as performance measures

Plans

- **Initial implementation ISN'T complete until an *automated input* of next iteration is assured and knowledge is transferred!**

- **Use the Flowcharter, Strategies, and Balanced Scorecard features. Managers will understand these tools much better than the model itself!**

Lessons Learned

Resources

You will almost certainly require a contractor to facilitate the initial development of your model

- ◆ **Must be knowledgeable of both your organization AND software**

- ◆ **Knowledge-transfer as a deliverable**

- ◆ **Beware becoming dependent on contractors. Strive to do it internally!**

Lessons Learned

19 September 2000

Resources

Devote adequate resources

- ◆ **Likely a full-time position for each model**

- ◆ **This person must also have organizational understanding and good computer and software skills**

- ◆ **Must be at the right level to command respect and be empowered by leader**

Resources

♦ **Implementation team should be cross-functional**

♦ **Take advantage of "leap-frogging" opportunities**

ABC/M Case Studies -
Lessons Learned Composite

Times Cited	Lesson	Times Cited	Lesson
9	Perform Requirements Assessment	3	Remember ABC is a Management Tool
8	Executive Buy-In	3	Don't Make ABC a Finance Project
8	Dedicate Resources	2	Set Guidelines to Limit Activity & Driver Detail
8	Cross Functional Team	2	Consistency in Approach & Terms
8	Communicate Goals, Objectives & Strategies	2	Gain Momentum for Initial Success
8	Teach Managers How to Use ABC Data & Sell Them	1	Focus on Integration
8	Keep Models as Simple as Possible	1	Simplify Existing Accounting
7	Get Employees Involved in ABM Roll-Out	1	Pick Change Agents to be on Team
6	Use Consultants	1	Learn from Each Step & Each Mistake
5	Train Project Members in ABC	1	Create a Sense of Urgency
4	Update People on Project Status & Emphasize Successes	1	Don't Disrupt the World
3	Coordinate ABM with Other Major Projects	1	Link Use of ABM to Rewards
3	Make User Friendly	1	Don't Roll Over & Die

Taken from archived CAM-I case studies; _Cornerstones of Decision Making: Profiles of Enterprise ABM_, S.Player and C. Cobble; _Activity Based Management: Lessons from the ABM Battlefield_, S. Player and D. Keyes; and _Implementing ABM in Daily Operations_, J. Miller.

Reasons for Failure

- Lack of use
- Lack of clear objectives
- Failure to define the business issue
- Lack of staying focused on the defined objective
- Lack of a burning platform
- Not involving proper stakeholders
- Lack of appropriate resources
- Lack of benefit
- Lack of understanding by senior management that improvement is possible
- Lack of incentive to change
- Lack of execution plan
- Lack of buy-in (at varying levels)
- Not using proper tool to address the business issue
- Failure to properly define scope
- Lack of project management
- Unrealistic time frames
- Loss of champion
- Failure to put into right context

- Lack of acceptance to change
- Type of organizational structure
- Internal politics
- Finance function driven
- Overly complex system
- Too detailed of a system
- Efforts to obtain accuracy drive complexity
- Misuse of proper tool
- Failure to manage management expectations
- Poor communication
- Overly dependent on consultants
- Lack of training
- Fear of change
- Fear of accountability
- Team composition not geared toward project objective
- Lack of good interpersonal skills
- System not user friendly
- System not properly refreshing data (maintaining sustainability)

from CAMI's "ABCM Design Framework"

Pitfalls When Implementing ABC/M

Lack of top management buy-in

Lack of clear objectives

Financial person in-charge

Lack of employee involvement

Lack of monetary support

Lack of training

Lack of cost management expertise

Not linking ABM with other initiatives

Too much or too little detail

Problems in collecting activity data

Poor project management

Individual resistance due to fear

Departmental resistance to change

People's resistance to changing their belief and value systems

Environmental barriers to change

Plans to act on the numbers were never formalized

Lack of understandable reports

Problems with reporting frequency

from Arthur Andersen's "Lessons from the ABM Battlefield"

Summary

"Only when people take action and make decisions based on the knowledge and information gained from the ABM installation can the effort be deemed successful. Absent of action or the decision to make changes, efforts expended in planning, analysis, data gathering, and costing would have produced NO VALUE to the organization."

John A. Miller
Implementing Activity Based Management
In Daily Operations

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